



February 13, 2023

FAR CASE 2021-015

**RE: COMMENTS OF CENTER FOR RESOURCE SOLUTIONS IN RESPONSE TO THE PROPOSED RULE ON FEDERAL ACQUISITION REGULATION (FAR): DISCLOSURE OF GREENHOUSE GAS (GHG) EMISSIONS AND CLIMATE-RELATED FINANCIAL RISK PUBLISHED ON NOVEMBER 14, 2022, (FAR CASE 2021-015)**

Center for Resource Solutions (CRS) appreciates this opportunity to provide comment on Department of Defense (DoD), General Services Administration (GSA), and National Aeronautics and Space Administration's (NASA) proposed Federal Acquisition Regulation rule on the Disclosure of Greenhouse Gas Emissions and Climate-Related Financial Risks. These comments pertain to the use of a market-based scope 2 total for GHG accounting, the use of market-based instruments in scopes 1 and 3, the proposed exclusive use of the Greenhouse Gas Protocol (GHGP) standard, and verification of GHG inventories.

**Introduction to Center for Resource Solutions**

CRS is a 501(c)(3) nonprofit organization, established in 1997, that creates policy and market solutions to advance sustainable energy. CRS has been instrumental in the development of state, regional, and national renewable energy policies and markets through national and international programs that provide technical guidance to policymakers and regulators at different levels on renewable energy and greenhouse gas (GHG) policy design, accounting, tracking and verification, market interactions, and consumer protection. CRS also administers the Green-e® programs, the largest of which is Green-e® Energy, the leading independent certification for voluntary renewable electricity products in North America. CRS recently launched the Clean Energy Accounting Project (CEAP), which develops standardized, stakeholder-reviewed clean energy and GHG emissions accounting guidance addressing outstanding questions in voluntary and regulatory markets.

**General Support for Required Disclosure of Greenhouse Gas Emissions**

CRS generally supports the FAR requirements for disclosure of greenhouse gas emissions. We agree with the rationale for these Proposed Rules listed in "B. Benefit" that "[p]ublic procurement can shift markets, drive innovation, and be a catalyst for adoption of new norms and global standards. Requiring significant and major contractors to publicly disclose their GHG emissions and requiring major contractors to publicly disclose their climate-related financial risk and set science-based reduction

targets will give visibility to major annual sources of GHG emissions and climate risks throughout the Federal supply chain and could, in turn, provide insights into the entire U.S. economy”.<sup>1</sup>

In addition to our general support of disclosure of GHG emissions, we identify several opportunities to strengthen the Proposed Rules and offer recommendations.

### **Require a Market-based Scope 2 Total for GHG Accounting and Target Setting**

Scope 2 emissions are the “emissions from the generation of purchased electricity.”<sup>2</sup> In the United States, and in many other markets, electricity is bought, sold and allocated to consumers’ load contractually. Transactions of electricity generation occur outside the grid and are not necessarily constrained by proof of physical delivery. This contractual system for transacting specified power and allocating generation to load was deliberately and collectively chosen<sup>3</sup> to enable national markets for electricity and to facilitate the power of choice on supply of electricity on the grid, which prevents electricity from being physically directed to specific load/customers and unavoidably mixes all generation together for physical delivery of electricity.

The Proposed Rules rely on the Greenhouse Gas Protocol, which requires “dual reporting” of both market-based and location-based scope 2 emissions in markets where differentiated energy products in the form of contractual instruments (including direct contracts, certificates, or supplier-specific information) are available, including the United States.<sup>4</sup>

The market-based method calculates scope 2 emissions using the emissions rates of electricity generation that a company purchases, either from generators or from utilities and other suppliers using contractual agreements and instruments. It relies on market data including purchased generation and attributes, load serving entity retail product/portfolio mixes (based on its owned and procured generation and attributes), and regional “residual” (or publicly allocated) mixes of generation (based on regional market transactions of generation attributes). It represents the legally enforceable allocation of emissions from electricity generation to retail electricity customers and is consistent with all existing state policies and programs, including state Clean Energy Standard (CES) and RPS programs, power source disclosure programs, resource planning processes, and rules for accounting for emissions associated with imported and delivered electricity (both direct and from regional markets). Market-based accounting results in the most accurate scope 2 emissions, and it is the most appropriate for

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<sup>1</sup> <https://www.regulations.gov/document/FAR-2021-0015-0001>

<sup>2</sup> The GHG Protocol Corporate Accounting and Reporting Standard, Revised. World Resources Institute. Pg. 25. Available at: <https://ghgprotocol.org/sites/default/files/standards/ghg-protocol-revised.pdf>.

<sup>3</sup> The contractual system is the result of decades of market development that has been shaped by state and federal laws and regulatory decisions, legal and market based contractual practices, and programs and practices adopted by public and private sector participants in power markets.

<sup>4</sup> Sotos, M. (2015). GHG Protocol Scope 2 Guidance: An Amendment to the GHG Protocol Corporate Standard. World Resources Institute. Pg. 59. [https://ghgprotocol.org/sites/default/files/standards/Scope%20%20Guidance\\_Final\\_Sept26.pdf](https://ghgprotocol.org/sites/default/files/standards/Scope%20%20Guidance_Final_Sept26.pdf)

climate disclosures required by the FAR, as it reflects the companies' choice and market activity regarding sources of electricity.<sup>5</sup>

The market-based method can be differentiated from the "location-based" method, which assigns the average emissions rate of all electricity generated in the region (e.g., eGRID subregion) where a company's operations are located to every MWh used. The location-based method does not reflect any purchasing choices of consumers, or any RPS compliance activity or other specific procurement undertaken by their utility or supplier.

#### Recommendations Regarding Scope 2 Emissions Accounting

Require a market-based accounting method for scope 2 emissions calculations. The FAR should not permit alternative scope 2 calculation methods to be used without a market-based figure, as those methods will not accurately reflect generation and emissions allocated to electricity customers or customers' property rights. Alternative methodologies also may not reflect a company's choice and market activity regarding sources of electricity. "Dual reporting" of both market-based and location-based scope 2 emissions consistent with the current GHG Protocol guidance,<sup>6</sup> can be permitted.

#### **Certification of Market-based Instruments**

As described in the EPA's *Guide to Purchasing Green Power*, certification and verification programs serve an important role in the voluntary market by providing oversight.<sup>7</sup> By setting sustainability requirements for green power products and ensuring environmental attributes are not claimed by multiple entities, certification provides assurances important to scope 2 emissions calculations and reporting. *While the emissions associated with all delivered electricity can be reported in a company's GHG inventory, the FAR should encourage the procurement of voluntary renewable energy.* Voluntary purchases are those that are not mandated by local, state, or federal legislation, but are the direct choice of the consumer to purchase clean energy that goes above and beyond what is required to be delivered to consumers by law.

Through the Green-e® Energy program, CRS certifies renewable energy that meets the highest standards in North America. Green-e® staff verifies the entire chain of custody of certified renewable energy from generation to retirement to ensure that the purchase is *voluntary*, and individuals and businesses are getting exactly what they paid for. Green-e® Energy certifies renewable energy product types (Green Pricing Programs, Competitive Renewable Electricity, Unbundled RECs, Community Choice Aggregation, and Direct and On-Site Certification) that are essential to voluntary markets and

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<sup>5</sup> Sotos, M. (2015). GHG Protocol Scope 2 Guidance: An Amendment to the GHG Protocol Corporate Standard. World Resources Institute. Pg. 8: "A market-based method reflects emissions from electricity that companies have purposefully chosen (or their lack of choice)."

<sup>6</sup> Sotos, M. (2015). GHG Protocol Scope 2 Guidance: An Amendment to the GHG Protocol Corporate Standard. World Resources Institute. [https://ghgprotocol.org/sites/default/files/standards/Scope%20%20Guidance\\_Final\\_Sept26.pdf](https://ghgprotocol.org/sites/default/files/standards/Scope%20%20Guidance_Final_Sept26.pdf)

<sup>7</sup> For further discussion see EPA's Guide to Purchasing Green Power (pg. C-5). Available at: [https://www.epa.gov/sites/default/files/2016-01/documents/purchasing\\_guide\\_for\\_web.pdf](https://www.epa.gov/sites/default/files/2016-01/documents/purchasing_guide_for_web.pdf)

ensure that purchased electricity is voluntary by limiting generation resource eligibility based on resource type and generation technology, date of facility construction/operation, vintage of eligible sales, geographic sourcing requirements for specific product types, and state-specific eligibility restrictions.<sup>8</sup>

#### *Recommendations Regarding Market-based Instruments and Certification*

The FAR should encourage contractors to procure Green-e® certified supply to lend credibility to their market-based scope 2 accounting and to meet the minimum bar for impactful renewable energy procurement in the US.

#### **Recognize Market Instruments in Scope 1 Emissions Calculations**

The FAR should recognize market-based accounting for direct emitting activities in Scope 1 where characteristics of a material input affect the amount or classification of direct emissions resulting from the material's use and physical tracking of the material input is not feasible. One such material input is renewable fuel used for thermal or transportation applications. These fuels are frequently transported over integrated distribution grids that mix renewable and non-renewable fuels. Market instruments such as renewable fuel certificates or bilateral contracts are commonly used to transfer rights to specified renewable resources delivered via a common carrier pipeline in federal and state regulatory markets for renewable transportation fuels (e.g., state Low Carbon Fuel Standards, Clean Fuels Programs, and the Federal Renewable Fuel Standard), as well as a nascent voluntary market for renewable energy for thermal applications.

By supporting the use of market-based accounting in Scope 1, GSA, DOD, and NASA can encourage increased demand for environmentally beneficial products such as renewable fuels.<sup>9</sup>

#### **Reflecting Market-based Instruments in Scope 3**

The FAR should also recognize the embedded emissions value of market instruments reported in a company's scope 1 and scope 2 in the scope 3 emissions of its value chain partners. Scope 3 emissions can be a large source of emissions for companies and allowing the market-based instruments that used in scope 1 and 2 to reflect in the scope 3 emissions of value chain partners encourages supplier engagement and supply chain decarbonization efforts both by the supplier and, in some cases, the value chain partner. For example, U.S. EPA has published guidance on procuring renewable electricity on behalf of upstream suppliers. It found that renewable electricity purchases accounted for in the scope 2 emissions of an upstream supplier could credibly be reflected in the purchaser's scope 3 total, provided certain quality criteria were met.<sup>10</sup>

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<sup>9</sup> Green-e® also certifies Renewable Fuels products that can be used to address scope 1 emissions under the Green-e® Renewable Fuels standard. Available at: <https://www.green-e.org/docs/rf/Green-e%20Renewable%20Fuels%20Standard.pdf>

<sup>10</sup> Renewable Electricity Procurement on Behalf of Others: A Corporate Reporting Guide. Available at: [https://www.epa.gov/system/files/documents/2022-05/renewable\\_electricity\\_procurement.pdf](https://www.epa.gov/system/files/documents/2022-05/renewable_electricity_procurement.pdf)

### **The FAR Should Not Exclusively Rely on the GHG Protocol**

The FAR should not exclusively require registrants to report GHG emissions inventories in accordance with the GHG Protocol. This standard may change independently in ways that cannot be controlled by the GSA, DOD, or NASA, as a result of the GHG Protocol's own standard development process. The FAR should provide flexibility to use other equivalent standards or establish its own specified reporting requirements in the future, as needed.

### **Verification of GHG Inventories**

CRS supports the use of science-based targets under the FAR. Accurate and reliable GHG inventories are crucial to setting such targets. Third-party verification adds credibility to annual inventory reports and provides confidence in base year GHG emissions, allowing organizations to set targets and accurately track performance over time. It is required or encouraged by many GHG emissions reporting frameworks including CDP, the Global Reporting Initiative, The Climate Registry, U.S. EPA's Center for Corporate Climate Leadership and the Oregon Department of Environmental Quality Greenhouse Gas Reporting Program. It was also included as a requirement in the recent SEC climate disclosure rule proposal.

Since reporting to CDP under the Proposed Rule does not currently require verification of GHG inventories, the FAR should require that suppliers submit proof of verification of their GHG emissions inventory by an accredited third party. Verification should be conducted by an accredited verifier<sup>11</sup>, or be conducted by either a third-party auditor or CIA and adhere to an approved standard<sup>12</sup>.

Please let me know if we can provide any further information or answer any other questions.

Sincerely,

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Lucas Grimes

Manager, Policy

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<sup>11</sup> The American National Standards Board accredits verification bodies for many programs that require carbon footprint reporting. A list of accredited verification bodies is maintained here: <https://anabpd.ansi.org/Accreditation/environmental/greenhouse-gas-validation-verification/AllDirectoryListing?prgID=200&statusID=4>.

<sup>12</sup> CDP has created a list of quality verification standards. Hired third-party auditors or CIAs should adhere to one of the standards on this list.